

## Land O'Lakes Opposes Proposals Seven and Eight

Proponents of Proposal 7 say that it is as likely in the Southwest for a farm's weight and test to be higher when compared to the level determined by the plant as is the inverse. While the average daily deliveries of farmers in the Southwest and Arizona orders may be larger than a truckload, dairy farmers pooled on the other orders are far more likely to be combined and commingled on the milk truck, so that a full load of milk is delivered to the dairy. During 2006 the average daily production for farmers pooled on the Federal orders was 6,264 pounds per day, which means that on average there were four dairy farmers on every load of milk delivered. In the largest Federal orders, the Northeast and the Midwest, the average daily production is only about 4,500 pounds. In the Northeast, it is not uncommon to have ten or more producers commingled on a single load of milk.

Proponents state that dairy farmers, pooled on the Florida, Southwest, Arizona and Pacific Northwest orders, produce, on average, greater than a truck-load of milk every other day. However, the average number of producers, pooled on those orders, totals fewer than 2,000 dairy farmers and represents less than four percent of all dairy farmers pooled on federal orders during 2006 (Federal Milk Order Statistics, Annual Summary 2006, Tables 5 and 7).

Over time, the practice of selling commingled loads of milk has produced a specific set of sales norms. For instance, in the six Federal orders in which Land O'Lakes pools milk, all sales are priced at farm weights and tests. Even if a plant negotiated a plant weight and test sales agreement, there would be no way to specifically associate a farmer's weight and test when there are at least three other farmers on the load.

Additionally, the practice in the Northeast and the Midwest is to take component tests on one sample of the producer's milk per week. The weekly butterfat, protein and other solid samples are averaged together to determine the farmer's monthly component tests. The farmer is paid on those averages and the buyers are billed on those averages. While a farmer's fat test may, for example, vary by as much as four tenths of a percent (0.4%) between weekly samples, the milk plants that buy producer milk are billed based on the producer's average monthly component tests. If a plant does not buy the milk of a dairy farmer every day of the month, it is extremely

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likely that the test of a producer on any one day varies from the monthly average component value that the plant is billed.

Taking a weight measure of a liquid product is also an imprecise science. Milk truck drivers take sight or stick measurements at the bulk tank prior to agitating the milk for sampling. The measurement, usually expressed in inches, is checked with a chart and translated into an estimate of the bulk tank volume expressed in pounds. After the weighing and sampling procedures, the milk truck driver pumps the milk on the truck in a process that usually leaves a small portion of the milk on the milk house floor. Additionally, milk solids are left on the sides of the bulk tank, requiring a tank wash and sanitation before the next milking. Obviously fewer milk solids are delivered to the milk plant than were recorded at the farm.

It is usually stipulated in contracts between Land O'Lakes and their customers that a twenty-five hundredths percent (0.25%) difference between farm and plant scale weights is a normal and acceptable margin of shrinkage. Normally the contracts call for investigation when a particular load of milk exceeds one half percent (0.5%) shrinkage.

Land O'Lakes owns and operates a modern butter and powder plant in Carlisle PA. While the plant received over a billion pounds of milk in 2006, it also received cream, skim condensed and fluid buttermilk products. Also, while its primary outputs were non-fat dry milk and butter, the plant also processed whole and buttermilk powders, bulk milk, cream, and condensed milk and buttermilk products. The plant's cost accountants track all SNF and fat pounds brought into the plant and the volumes of SNF and fat contained in the plant's products leaving the plant.

Every truck into the plant must cross one of the plant's scales before delivery and departure. While each milk truck is not sampled for components, each silo of milk is sampled and its test is recorded along with the total milk volume contained in the silo, which is derived from the scale truck weights. Each day at mid-night a tally of the milk received for the day and all silo tests is compiled to develop a daily report of SNF and fat received. Deliveries of products other than milk are individually weighed and tested and their volumes and components are also added to the daily mass balance report.

During 2006 the Carlisle facility experienced 0.343 percent shrinkage between farm weights and plant weights and 0.511 percent shrinkage in butterfat.

Just as the Carlisle facility compares component values paid for against component values received, the plant also measures the components in the manufactured products. Fat and solids tests are made on each product processed and are tallied to determine plant losses.

During 2006 Carlisle lost one point eight percent (1.8%) of its butterfat and two point six percent (2.6%) of its SNF through plant loss.

One explanation for yield loss in dairy plants is the sanitation requirements of a modern dairy plant. The cleaning cycle for an evaporator and lines to the dryer is four hours for every twenty hours of running time. The cleaning cycle for the butter churn and accompanying cream and butter lines is eight to twelve hours and occurs every three to four days. The cleaning cycle for a dryer is thirty-six hours and is required about every month. A major component of every dairy plant is the waste water treatment facility. Costing as much as ten to fifteen percent of the cost of a dairy plant, these waste treatment plants isolate dairy solids from plant operations before they are discharged into waterways.

Land O'Lakes' owns and operates a cheddar cheese facility in Kiel Wisconsin. Farm to plant losses at Kiel are similar to the losses experienced at Carlisle.

The 2003 Final Decision recognized the reality of farm to plant loss and adjusted the yield coefficients of butterfat in cheese, protein, nonfat dry milk and butter to reflect the fact that manufacturing plants pay for components at farm weights and tests and receive a lesser volume at the plant. Evidence from Land O'Lakes' manufacturing plants confirms SNF and fat losses between farm and plant, as well as the fact that amounts of fat and SNF are lost before they are processed into products. It continues to be wholly appropriate for shrinkage to be recognized in the product formulas.

Table 5—Number of Producers Delivering Milk to Handlers Regulated Under Federal Orders, by Marketing Area, 2006

Federal Milk Order Marketing Area	Order Number	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	SIMPLE AVERAGE
Northeast	001	14,551	14,441	14,457	14,412	14,326	14,319	14,356	14,222	14,119	14,059	14,057	14,093	14,284
Appalachian	005	3,055	3,049	3,087	3,146	3,207	3,184	3,191	3,287	3,158	3,161	3,190	3,141	3,155
Southeast	007	3,408	3,292	3,404	3,323	3,349	3,345	3,298	3,295	3,186	3,160	3,198	3,209	3,289
Florida	006	378	313	315	313	323	271	324	347	343	356	350	338	331
Mideast	033	8,757	8,633	8,713	8,710	8,629	8,612	8,472	8,048	8,065	7,875	7,984	7,932	8,369
Upper Midwest	030	16,432	16,424	16,541	16,479	16,291	16,406	16,609	17,293	14,892	17,019	17,155	16,785	16,527
Central	032	5,471	5,394	5,448	5,480	5,386	5,117	5,331	5,194	4,798	4,989	4,407	4,427	5,120
Southwest	126	835	855	825	792	863	830	873	685	660	671	661	765	776
Arizona 1/	131	86	87	86	85	93	94	97	95	92	93	94	93	91
Pacific Northwest	124	843	838	835	837	840	833	824	821	607	772	769	572	783
All Markets Combined		53,816	53,326	53,711	53,577	53,307	53,011	53,375	53,287	49,920	52,155	51,865	51,355	52,725

1/ Effective May 1, 2006, the name of the Federal order was changed Clark County, Nevada which includes Las Vegas, was removed from the marketing area.

Table 7--Average Daily Delivery of Milk Per Producer to Handlers Regulated Under Federal Orders, by Marketing Area, 2006 1/

Federal Milk Order Marketing Area	Order Number	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	SIMPLE AVERAGE
		Pounds												
Northeast	001	4,403	4,535	4,605	4,633	4,662	4,426	4,283	4,105	4,123	4,078	4,119	4,221	4,349
Appalachian	005	5,496	5,737	6,020	6,088	5,898	5,696	4,950	4,715	4,810	5,109	5,248	5,370	5,428
Southeast	007	7,318	7,302	7,227	7,468	7,006	6,760	5,896	6,209	6,354	6,406	6,399	6,135	6,707
Florida	006	23,775	29,889	30,673	29,697	27,064	30,881	24,325	22,635	22,523	22,647	23,923	25,265	26,108
Midwest	033	5,571	5,749	5,715	5,792	5,899	5,809	5,718	5,452	5,206	5,525	5,458	5,586	5,623
Upper Midwest	030	4,352	4,473	4,430	4,427	4,493	4,384	4,463	4,512	4,336	4,537	4,604	4,377	4,449
Central	032	7,343	8,120	8,178	8,100	8,384	6,653	7,949	7,353	5,608	7,382	7,269	6,582	7,410
Southwest	126	34,786	37,160	39,180	39,720	40,496	39,796	38,825	44,210	44,395	44,054	46,765	45,418	41,234
Arizona 2/	131	160,755	104,029	108,191	118,454	112,884	108,481	91,897	88,412	90,544	94,960	98,183	104,860	101,804
Pacific Northwest	124	23,983	25,815	26,209	27,382	27,549	26,510	27,687	28,506	26,795	25,974	25,874	25,612	26,487
All Markets Combined 3/		6,191	6,483	6,527	6,575	6,674	6,297	6,280	6,087	5,784	6,092	6,133	6,049	6,264

1/ It should be noted that the election not to pool milk normally associated with an order due to disadvantageous intraorder price relationships affects the comparability of this statistic. See footnotes on Table 6

2/ Effective May 1, 2006, the name of the Federal order was changed. Clark County, Nevada which includes Las Vegas, was removed from the marketing area.

3/ Figures are computed from the "All Markets Combined" data for number of producers and receipts of producer milk from Tables 5 and 6